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SIPDIS

STATE FOR WHA/CAR (WBENT), EB/ESC/IEC/EPC (MCMANUS, ESSER)

SANTO DOMINGO FOR FCS

SENSITIVE

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TAGS: [EPET](#) [ENRG](#) [ECON](#) [PREL](#) [JM](#)

SUBJECT: PETROCARIBE: PUBLIC AND PRIVATE SECTOR CONCERNS

REF: A. KINGSTON 2026

[1](#)B. KINGSTON 2083

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Summary  
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[1](#)1. (SBU) Under the bilateral agreement signed between Jamaica and Venezuela on August 23 (ref A), Jamaica receives 21,000 barrels of petroleum products and crude oil daily. While the island pays market price for the products, a portion of the payment can be converted into a concessionary loan for social and economic development. Consequently, Jamaicans do not realize the much-anticipated reduction in prices at the pump, but instead benefit from the reduced pressure on the country's foreign exchange reserves, a development welcomed by Bank of Jamaica officials. However, at least one Ministry of Finance (MOF) official thinks the deal could have negative implications for fiscal policy. Likewise, opposition party members as well as representatives from marketing companies revealed misgivings about possible unintended consequences of the PetroCaribe deal, and expressed serious concerns about GOJ intentions in light of recent statements from GOJ Energy Minister Phillip Paulwell. End summary.

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Background  
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[1](#)2. (U) On August 23 a bilateral Economic Cooperation Agreement was signed between Jamaica and Venezuela (although Jamaica started receiving shipments of petroleum products under the deal in July). A Second PetroCaribe Summit was held in Jamaica on September 6, 2005 (ref B), jointly hosted and co-chaired by Prime Minister P.J. Patterson and President Hugo Chavez of Venezuela. The oil initiative, which replaces the San Jose Accord and the Caracas Energy Agreement of 2001, was presented by Chavez as an alternative to free trade deals backed by the U.S.

[1](#)3. (U) Chavez found perfect allies in Caribbean leaders and people hurting from the effects of soaring oil prices. The Jamaica summit was geared at concluding bilateral arrangements and establishing the Ministerial Council to govern the operations of PetroCaribe. Patterson, in addressing the summit, pointed out that beneficiary states would not receive oil at concessionary prices, as under OPEC rules Venezuela is not allowed to sell below market prices. Consequently, Jamaican consumers do not see a reduction of prices at the pump. Under the bilateral plan, Venezuela provides Jamaica with up to 21,000 barrels of crude oil and petroleum products per day. In return, Jamaica pays full market price for the products, but the agreement allows the GOJ to finance a portion of the cost-per-barrel depending on the market price at the time of purchase.

[1](#)4. (U) The financing package ranges from a low of five percent when oil prices are greater than or equal to USD 15 per barrel to a high of 50 percent when oil prices are greater than or equal to USD 100 per barrel. The financing period ranges from 15 to 25 years depending on the price of oil. When the price per barrel exceeds USD 40, the financing period will extend to 23 years plus a two-year grace period at one percent rate of interest. The agreement also allows Jamaica to make partial payments to Venezuela in goods and services 'that are under threat from the trade policies of rich countries,' an obvious response to the dismantling of trade preferences for bananas and sugar. As part of the agreement, the Jamaican oil refinery will be upgraded to increase output from 36,000 to 50,000 barrels a day. The refinery will also be configured to process the heavier grades of crude oil that Venezuela extracts.

[1](#)5. (U) While Jamaican consumers do not see any reduction in prices, a number of benefits are expected to flow from the

oil deal with Venezuela. Proceeds from the concessionary loan are supposed to be used for social and economic development projects 'to improve the lives of the poor.' With payments for a portion of Jamaica's petroleum products being postponed, the country also benefits from reduced foreign exchange outflows of between USD 150 and 180 million annually, thereby reducing the pressure on foreign reserves.

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Concerns from within...  
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16. (SBU) Chief Fiscal Economist at the Ministry of Finance Courtney Williams told emboff on October 8 that the PetroCaribe deal could have negative implications for fiscal policy through a build-up in debt. Williams opined that the loan would lead to increased capital expenditure without any corresponding revenue flow, resulting in an increase in the fiscal deficit. "I guess everything will depend on how the financial markets and rating agencies view the deal," Williams continued. Keith Collister, of the Jamaica Chamber of Commerce, told emboff that from an economic perspective, the development had to be seen as positive. Collister added, however, that: "nothing in life is free and preliminary discussions in the Chamber have surrounded the costs in terms of our relationship with the U.S."

17. (U) Opposition Leader of the Jamaica Labor Party (JLP) Bruce Golding has also expressed concerns about the possible use of the funds secured under the oil deal. Golding has warned the Patterson administration that the JLP would "scrutinize, monitor and police" the use to which the savings were put. Golding, in a swipe at Finance Minister Omar Davies, said: "We don't want another generation to come and find that, in order to try to secure a fifth term, some Minister of Government was motivated to `run with it.'" (Note: Immediately after the 2002 election, Minister Davies admitted publicly that the administration had engaged in profligate pre-election spending on public projects in an effort to sway undecided voters. End note.) He suggested the GOJ spend the savings on education, power generation, energy efficiency and improving productive capacity.

18. (U) Patterson nonetheless rejected a JLP proposal that the use of funds saved through the PetroCaribe deal be subject to parliamentary approval. Instead, he announced, lawmakers will receive reports on fund use when the annual budget and supplementary budgets are presented. Patterson did show fiscal prudence in noting that priority for the use of funds should go to those enterprises (such as increasing energy efficiency, or mitigating the hazards of natural disasters, for example), which have a capacity to repay the portions they borrow from the PetroCaribe fund. It was important to remember that: "these amounts represent loans, not grant funds," he said.

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...and from without  
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19. (SBU) Representatives from two of the largest petroleum marketing companies in Jamaica have also voiced concerns to emboffs. The General Manager of Esso (ExxonMobil), outlined three primary - albeit hypothetical - issues:

-- Supply Stability: Previously, Venezuela accounted for approximately 16 percent of Jamaican oil imports. Under PetroCaribe, however, that figure would jump to close to 70 percent. McFarlane pointed out that such dependence could lead to supply shocks in the future, noting that 2003 labor unrest in Venezuela had seriously affected supply.

-- Reference Prices: Venezuela does not post its crude oil prices, in stark contrast to all other oil-producing nations. He wondered what, therefore, might happen if internal factors impelled Venezuela to sell its oil at over-market prices. He further noted that the provision for repayment in the form of goods and services was post-scripted: "at concessionary rates," without specifying who sets these rates, nor by what formula.

-- Corruption Issues: GOJ has worked on a 45-day rolling credit basis with regard to paying for crude oil. All of the GOJ's financial mechanisms are established to meet this target. Now, with a 25-year de facto "extension" on its deadline, there need to be strong disincentives to the misuse or misappropriation of these funds. Historically, GOJ has not had a strong anti-corruption posture.

110. (SBU) On October 18, EconOff spoke to both the Regional Manager for Policy, Government and Public Affairs, and the Country Manager of Texaco (ChevronTexaco). While acknowledging the points above, they were less worried by any particular one of them. Instead, they pointed to the overall uncertainty inherent in the deal. PetroCaribe, in their view, is simply a financing deal, which does not

affect their day-to-day operations. Much detail regarding actual logistics is still unwritten, however, creating the possibility that "the playing field might not stay level," the concern being that the state-owned Petroleum Corporation of Jamaica (PCJ) may undertake arrangements that are not strictly free market-based. Shortly after our conversation, this fear was borne out. On October 21, GOJ Energy Minister Phillip Paulwell announced that Petcom, the retail subsidiary of the PCJ, was scouting potential sites and new franchisees for the Petcom brand as part of a major expansion under PetroCaribe. "We want to take on the big boys," Paulwell said.

11. (SBU) PCJ established Petcom in the 1980s as a stabilizing mechanism at a time when the GOJ felt that multinational marketing companies could hold Jamaica to ransom if not for a counterbalancing force. Petcom currently has 20 service stations, accounting for about ten percent of the island's retail trade. Under the expansion, these numbers would climb to 45 stations, capturing 35 percent of the market over the next three years. While noting that he "welcomed competition, which always benefits the consumer," Texaco's Country Manager noted that he had very serious concerns about how the State-owned PCJ would outmaneuver the private companies. Would they receive preferential supply? Beneficial pricing? More efficient distribution? "It is clear," he noted in an October 26 e-mail, "that the present Government wants to vertically integrate into the [retail] petroleum sector. This is a significant policy shift which will have serious implications for the market."

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Comment  
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12. Jamaica is suffering not only from record oil prices, but also from the dismantling of traditional trade preferences. With many industries unable to compete with lower cost producers, some Jamaican leaders view Venezuela as a possible liberator to fill the void caused by the falloff in trade. While private sector organizations recognize the possible economic and social benefits, some quarters are beginning to fear a backlash from the U.S., and are starting to see hidden costs and consequences that had been glossed over in the glow of the deal. However, PetroCaribe could have a transforming effect on the Jamaican economy, if the GOJ puts the savings to productive use. In particular, the expected foreign exchange savings should relieve pressure on the country's limited, albeit increasing, stock of net international reserves. If the loan proceeds are used to finance productive enterprises, it will not only generate enough resources to repay the debt but could very well produce additional resources to finance other high cost debt. However, the Opposition's fear of the savings being used by the current administration as a "slush fund" to secure a fifth consecutive term should not be overlooked, given the normally prudent Davies' post-election admission of fiscal imprudence. Similarly, while representatives of both Esso and Texaco in Jamaica have indicated that the uncertainties have not affected their short- or medium-term investment strategies in the country, Paulwell's recent challenge to the industry has caused some concern among some multinational corporations about GOJ's intentions in this deal. End comment.

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